

Message Text

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ACTION OPIC-06

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E.O. 11652: N/A

TAGS: ECON EINV IC US

SUBJECT: UNION CARBIDE BOWS OUT

1. SUMMARY. LAST WEEK UNION CARBIDE OFFICIALS INFORMED ICELANDIC SENIOR PARTNER (THE GOI) THAT UC INTENDED TO TERMINATE AGREEMENT TO BUILD A FERROSILICON PLANT IN ICELAND. REASONS STATED WERE FINANCING DIFFICULTIES AND MARKET CONDITIONS. THE GENERAL MANAGER OF JOINT PARTNERSHIP (ICELANDIC ALLOYS) ANNOUNCED TO PRESS THIS WEEK THAT NO FURTHER WORK WOULD BE DONE IN THE NEXT FEW MONTHS, BUT DID NOT GO SO FAR AS TO SAY THAT THE PROJECT HAD BEEN CANCELED. ICELANDIC OFFICIALS ARE UNHAPPY OVER UC'S DECISION.

2. BACKGROUND. LAST WEEK UC OFFICIALS RETURNED TO ICELAND BRIEFLY AND INFORMED THE EMBASSY THAT THEY WERE TERMINATING ALL PLANS FOR THE FACTORY, BUT INTENDED TO PAY THEIR DUE BILLS. THEY EXPRESSED THE HOPE THAT THE GOI WOULD NOT LITIGATE. THEY ADVISED THE EMBASSY THE REASONS WERE UC'S INABILITY TO GET PLANT FINANCING AT REASONABLE TERMS AND THE WEAK MARKET FOR THE PROPOSED PRODUCT BECAUSE OF THE DECLINE IN STEEL PRODUCTION. EMBASSY OFFICIALS NOTED THAT OF GRAVEST CONCERN TO THE GOI WAS THE PROSPECT OF RISING UNEMPLOYMENT IN CONSTRUCTION AND THAT THE ANNOUNCEMENT WOULD BE A BLOW TO ICELANDIC HOPES FOR A QUICKER ECONOMIC RECOVERY. UC OFFICIALS EXPRESSED SURPRISE THAT IN EARLIER TALKS, GOI HAD EX-LIMITED OFFICIAL USE

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PRESSED MORE CONCERN OVER EMPLOYMENT LOSS THAN IN SURPLUS

ELECTRIC CAPACITY FOR WHICH ICELAND NOW WOULD HAVE TO LOCATE A NEW USER. IT WAS NOTED HOWEVER THAT GOI POLITICIANS TEND TO THINK IN THE SHORTER TERM.

3. GOI REACTION. THERE HAVE BEEN NO PUBLIC COMMENTS TO DATE APART FROM EARLIER MENTIONED RELEASE. MIN INDUSTRY MAY NOT WISH TO ADD TO CURRENT PROBLEMS BY ANNOUNCING THE END OF THE FERROSILICON PROJECT. HENCE TACTIC OF GENERAL MANAGER TO IMPLY THAT PROJECT MAY ONLY BE DELAYED.

4. COMMENT. UC OFFICIALS MAY BE SOMEWHAT NAIVE IN BELIEVING GOI WILL ACCEPT UC DECISION AS FAIT ACCOMPLI. UC FEELS OFFER TO PAY BILLS AND HELP FIND NEW USER FOR ELECTRIC POWER SUFFICIENT TO MEET TERMS OF AGREEMENT. HOWEVER, CHAIRMAN CENTRAL BANK EARLIER EXPRESSED DISMAY TO AMBASSADOR THAT UC OFFICIALS DID NOT REALIZE "A BARGAIN IS A BARGAIN."
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